

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Luce County Housing Commission	County Luce
Fiscal Year End 12/31/2006	Opinion Date 9/6/2007	Date Audit Report Submitted to State 10/15/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

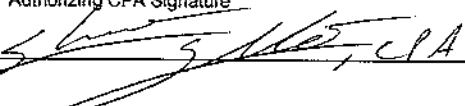
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	NA	
Certified Public Accountant (Firm Name) Anderson, Tackman & Co., PLC		Telephone Number 906-774-4300	
Street Address 201 E. Hughitt Street		City Iron Mountain	State MI
		Zip 49801	
Authorizing CPA Signature 	Printed Name Shane M. Ellison, CPA		License Number 263063

LUCE COUNTY HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended December 31, 2006

LUCE COUNTY HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Luce County Housing Commission
Newberry, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Luce County Housing Commission as of and for the year ended December 31, 2006 as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Luce County Housing Commission as of December 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2007 on our consideration of the Luce County Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Luce County Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

September 6, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Luce County Housing Commission's financial performance provides an overview of the financial activities for the year ended December 31, 2006. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$1,561,375 for the year ended December 31, 2006 compared to \$329,862 for the year ended December 31, 2005.
- The Commission's operating revenues totaled \$1,839,308 for the year ended December 31, 2006 and \$593,561 for the year ended December 31, 2005, while operating expenses totaled \$607,310 for the year ended December 31, 2006 and \$585,604 for the year ended December 31, 2005.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows (on pages 9 to 12) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at December 31, 2006 increased \$1,231,513 from December 31, 2005.

Table 1

NET ASSETS

	December 31,	
	2006	2005
Assets		
Current assets	\$ 1,313,134	\$ 130,386
Capital assets (net)	<u>540,895</u>	<u>595,428</u>
Total assets	<u>1,854,029</u>	<u>725,814</u>
Liabilities		
Current liabilities	167,721	144,459
Noncurrent liabilities	<u>124,933</u>	<u>251,493</u>
Total liabilities	<u>292,654</u>	<u>395,952</u>
Net Assets		
Invested in capital assets, net of related debt	295,895	235,428
Unrestricted	<u>1,265,480</u>	<u>94,434</u>
Net Assets	<u>\$ 1,561,375</u>	<u>\$ 329,862</u>

Net assets of the Commission stood at \$1,561,375 for the year ended December 31, 2006 compared to \$329,862 for the year ended December 31, 2005. Unrestricted net business assets were \$1,265,480 for the year ended December 31, 2006 compared to \$94,434 for the year ended December 31, 2005. In general, the Commission's unrestricted net assets are used to fund operations of the Commission. The increase in current assets was due primarily to the Commission receiving a settlement of retroactive Section 8 annual rent adjustments for 1994 to 2006 in the amount of \$1,117,120.

Table 2**CHANGE IN NET ASSETS**

	Year Ended December 31,	
	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 117,028	\$ 114,762
Program grants and subsidies	493,209	474,835
General revenues:		
Other revenues	1,228,901	3,964
Unrestricted investment earnings	<u>16,138</u>	<u>3,667</u>
Total revenues	<u>1,855,276</u>	<u>597,228</u>
Program Expenses:		
Operating expenses	607,310	585,604
Interest expense	<u>16,453</u>	<u>24,260</u>
Total expenses	<u>623,763</u>	<u>609,864</u>
Change in net assets	1,231,513	(12,636)
Net assets - beginning of period	<u>329,862</u>	<u>342,498</u>
Net assets - end of period	<u>\$1,561,375</u>	<u>\$ 329,862</u>

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled \$1,855,276 for the year ended December 31, 2006 compared to \$597,228 for the year ended December 31, 2005. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses. The increase in other reserves is primarily due to a settlement of retroactive Section 8 annual rent adjustments for the years 1994 to 2006 in the amount of \$1,117,120. The increase in operating expenses is largely due to an increase in depreciation.

CAPTIAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Commission had \$1,876,161 invested in a variety of capital assets including land, equipment and buildings at December 31, 2006 compared to \$1,880,500 at December 31, 2005.

Table 3

CAPITAL ASSETS Business - Type Activity

	December 31,	
	2006	2005
Land and improvements	\$ 42,965	\$ 42,965
Building and improvements	1,759,030	1,763,574
Equipment	<u>74,166</u>	<u>73,961</u>
Total	1,876,161	1,880,500
Less accumulated depreciation	<u>(1,335,266)</u>	<u>(1,285,072)</u>
NET CAPITAL ASSETS	<u>\$ 540,895</u>	<u>\$ 595,428</u>

The Commission invested \$4,814 in capital assets during the year ended December 31, 2006.

BONDS PAYABLE

During the year the Commission repaid bonds payable in the amount of \$115,000, representing all long-term liability payments due from the Commission during the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the calendar year 2007. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2007 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Erin Teske, at 550 West Victory, Newberry Michigan 49868, or call 906-293-5988.

LUCE COUNTY HOUSING COMMISSION

STATEMENT OF NET ASSETS
Proprietary Fund

December 31, 2006

CURRENT ASSETS:

Cash and equivalents	\$ 501,219
Accounts receivable	4,746
Investments	800,347
Prepaid expenses	6,087
Inventories	735

TOTAL CURRENT ASSETS

1,313,134

NONCURRENT ASSETS:

Capital assets	1,876,161
Less accumulated depreciation	(1,335,266)

NET CAPITAL ASSETS

540,895

TOTAL ASSETS

1,854,029

CURRENT LIABILITIES:

Accounts payable	10,768
Accrued liabilities	27,363
Compensated absences	4,590
Bonds payable	125,000

TOTAL CURRENT LIABILITIES

167,721

NONCURRENT LIABILITIES:

Compensated absences	4,933
Bonds payable	120,000

TOTAL NONCURRENT LIABILITIES

124,933

TOTAL LIABILITIES

292,654

NET ASSETS:

Investment in capital assets, net of related debt	295,895
Unrestricted net assets	1,265,480

NET ASSETS

\$ 1,561,375

The accompanying notes to financial statements are an integral part of this statement.



ANDERSON, TACKMAN
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CERTIFIED PUBLIC ACCOUNTANTS

LUCE COUNTY HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006

FUNCTIONS/PROGRAMS	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
					Business-Type Activities
BUSINESS-TYPE ACTIVITIES:					
Public Housing	\$ 623,763	\$ 117,028	\$ 493,209	\$ -	\$ (13,526)
General revenues:					
Unrestricted investment earnings					16,138
Other					1,228,901
Total general revenues					1,245,039
Changes in net assets					1,231,513
NET ASSETS, beginning of year					329,862
NET ASSETS, end of year					\$ 1,561,375

The accompanying notes to the financial statements are an integral part of this statement.

LUCE COUNTY HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN NET ASSETS
Proprietary Fund**

For the Year Ended December 31, 2006

OPERATING REVENUES:

Tenant revenue	\$ 117,028
Program grants-subsidies	493,209
Other income	<u>1,229,071</u>

TOTAL OPERATING REVENUES	<u>1,839,308</u>
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OPERATING EXPENSES:

Administration	131,884
Tenant services	289
Utilities	39,661
Maintenance	34,161
General	13,815
Housing assistance payments	322,853
Other operating expenses	5,470
Depreciation	<u>59,177</u>

TOTAL OPERATING EXPENSES	<u>607,310</u>
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OPERATING INCOME	<u>1,231,998</u>
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NONOPERATING REVENUES AND (EXPENSES):

Interest income	16,138
Loss on sale of capital assets	(170)
Interest expense	<u>(16,453)</u>

TOTAL NONOPERATING REVENUES AND (EXPENSES)	<u>(485)</u>
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CHANGE IN NET ASSETS	1,231,513
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NET ASSETS, BEGINNING OF YEAR	<u>329,862</u>
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NET ASSETS, END OF YEAR	<u>\$ 1,561,375</u>
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LUCE COUNTY HOUSING COMMISSION

STATEMENT OF CASH FLOWS
Proprietary Fund

For the Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 117,157
Cash received from grants and subsidies	493,209
Cash payments to suppliers for goods and services	(416,720)
Cash payments for wages and related benefits	(116,814)
Cash payments for payment in lieu of taxes	(4,000)
Other receipts	<u>1,229,071</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>1,301,903</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(4,814)
Payment of bond principal	(115,000)
Payment of bond interest	<u>(16,453)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(136,267)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(800,347)
Investment income	<u>11,397</u>
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(788,950)</u>
NET INCREASE IN CASH AND EQUIVALENTS	376,686
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>124,533</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 501,219</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ 1,231,998
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	59,177
Changes in assets and liabilities:	
Decrease (Increase) in receivables	129
Decrease (Increase) in prepaid expenses	(1,103)
Increase (Decrease) in accounts payable	5,176
Increase (Decrease) in accrued liabilities	<u>6,526</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 1,301,903</u>

The accompanying notes to financial statements are an integral part of this statement.

LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Luce County Housing Commission (Commission) was formed by Luce County, Michigan under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by Luce County.

The Commission manages 40 units of Section 8 Supplemental Units and 110 Housing Choice Vouchers, of which, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement #14, *The Financial Reporting Entity* and as amended by GASB Statement #39.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Luce County Housing Commission, but the Commission is a component unit of Luce County, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and Statement of Cash Flows are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents - The Commission's cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS(Continued)

- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Inventory – Inventory is recorded at the lower of cost or market and primarily consisted of maintenance supplies and materials.
- d. Due To and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- e. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$200 per item.

- f. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.

- g. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

- 1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on January 1st. The operating budget includes proposed expenses and the means of financing them. Prior to December 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31st.

LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Checking accounts	\$ 110,745
Certificate of deposit	100,000
Money markets and savings accounts	<u>290,474</u>
 TOTAL	 <u>\$ 501,219</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. As of December 31, 2006, the Commission held cash and equivalents in excess of F.D.I.C. insurance in the amount of \$11,191 of which was uninsured and uncollateralized.

Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>
		<u>Less Than 1 Year</u>
Certificates of Deposit	<u>\$800,347</u>	<u>\$800,347</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's investments may not be returned. As of December 31, 2006, the Commission held investments in excess of F.D.I.C. insurance in the amount of \$347 of which was uninsured and uncollateralized.

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

Concentration of Credit Risk. The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The Commission's investments and balances are with the following financial institutions:

River Valley State Bank, Marquette, MI	\$100,000
Republic Bank, Farmington Hills, MI	100,000
Soo Co-op Credit Union, Sault Ste. Marie, MI	100,000
Peninsula Bank, Ishpeming, MI	100,000
Old Mission Bank, Sault Ste. Marie, MI	100,000
Range Bank, Negaunee, MI	100,000
Northern Michigan Bank, Escanaba, MI	100,000
Central Savings Bank, Sault Ste. Marie, MI	<u>100,347</u>
Total	<u>\$800,347</u>

NOTE C - CAPITAL ASSETS

A summary of capital assets as of December 31, 2006 is as follows:

	Balance 1-1-06	Additions	Deletions	Balance 12-31-06
Land and improvements	\$ 42,965	\$ -	\$ -	\$ 42,965
Building and improvements	1,763,574	3,690	(8,234)	1,759,030
Equipment	<u>73,961</u>	<u>1,124</u>	<u>(919)</u>	<u>74,166</u>
	1,880,500	<u>\$ 4,814</u>	<u>\$ (9,153)</u>	1,876,161
Accumulated depreciation	<u>(1,285,072)</u>	<u>\$ (59,177)</u>	<u>\$ 8,983</u>	<u>(1,335,266)</u>
Net capital assets	<u>\$ 595,428</u>			<u>\$ 540,895</u>

Depreciation expense for the year was \$59,177

LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E - USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total revenues for the year ended December 31, 2006 totaled \$1,855,276 of which \$1,610,329 or 86.8% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G - RETIREMENT PLAN

Description of Plan and Plan Assets - The Housing Commission participates along with the County in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS); administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2 percent times the final average compensation (FAC). The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.3333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and requires supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE G - RETIREMENT PLAN (Continued)

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2005 is as follows: Housing Commission 12.66%.

Annual Pension Cost - During the fiscal year ended December 31, 2006, the County's contributions totaling \$201,046 were made in accordance with contribution requirement determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three-Year Schedule of Funding Progress

Actuarial Valuation Date	Accrued Actuarial Value of Assets (a)	Actuarial Liability - (AAL)Entry Age (b)	Underfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/03	\$1,972,826	\$3,071,468	\$1,098,642	64%	907,429	121%
12/31/04	\$2,131,543	\$3,343,489	\$1,211,946	64%	991,194	122%
12/31/05	\$2,296,859	\$4,275,499	\$1,978,640	54%	974,952	203%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$146,863	100%	0
2005	154,284	100%	0
2006	201,046	100%	0

LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE H - CHANGES IN LONG-TERM OBLIGATIONS

During the year ended December 31, 2006, the following changes occurred in long-term liabilities.

	Balance January 1, 2006	Additions	Repayments	Balance December 31, 2006	Amounts Due Within One Year
Bonds	\$360,000	\$ -	\$(115,000)	\$245,000	\$125,000
Vested sick pay	<u>8,825</u>	<u>3,030</u>	<u>(2,332)</u>	<u>9,523</u>	<u>4,590</u>
TOTALS	<u>\$368,825</u>	<u>\$ 3,030</u>	<u>\$(117,332)</u>	<u>\$254,523</u>	<u>\$129,590</u>

NOTE I - LONG-TERM OBLIGATIONS

Long-term obligations at December 31, 2006 are comprised of the following amounts:

1. 1978 Capital Building Bonds due in annual installments of \$10,000 to \$100,000 through May 1, 2007 with interest at 7.25%.	\$100,000
2. 2002 Rehabilitation Bonds due in annual installments of \$5,000 to \$50,000 through July 1, 2010 with interest at 4.45%	<u>145,000</u>
3. Vested sick pay	245,000 <u>9,523</u>
Total long-term obligations	<u>\$254,523</u>

The annual requirements to amortize long-term obligations outstanding as of December 31, 2006 are as follows:

Year Ended December 31,	Bond Issues		Vested	
	Principal	Interest	Sick Pay	Total
2007	125,000	10,077	4,590	139,667
2008	30,000	5,340	-	35,340
2009	40,000	4,006	-	44,006
2010	<u>50,000</u>	<u>2,224</u>	<u>4,933</u>	<u>57,157</u>
TOTAL	<u>\$245,000</u>	<u>\$21,647</u>	<u>\$ 9,523</u>	<u>\$276,170</u>

Interest charged to expenses totaled \$16,453.

**SUPPLEMENTAL
INFORMATION**

LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

December 31, 2006

Line Item #	Account Description	Business Activities	Housing Choice Vouchers	TOTAL
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 458,767	\$ 42,452	\$ 501,219
100	Total cash	458,767	42,452	501,219
Accounts and notes receivables:				
125	Accounts receivable - miscellaneous	5	-	5
129	Accrued interest receivable	4,741	-	4,741
120	Total receivables, net of allowances for doubtful accounts	4,746	-	4,746
Other current assets:				
131	Investments - unrestricted	800,347	-	800,347
142	Prepaid expenses	5,409	678	6,087
143	Inventories	735	-	735
144	Interprogram due from	1,693	-	1,693
150	TOTAL CURRENT ASSETS	1,271,697	43,130	1,314,827
NONCURRENT ASSETS:				
Fixed assets:				
162	Buildings	1,759,030	-	1,759,030
163	Furniture, equipment & machinery - dwellings	23,368	-	23,368
164	Furniture, equipment & machinery - administration	45,392	5,406	50,798
165	Leasehold improvements	42,965	-	42,965
166	Accumulated depreciation	(1,329,860)	(5,406)	(1,335,266)
160	Total fixed assets, net of accumulated depreciation	540,895	-	540,895
180	TOTAL NONCURRENT ASSETS	540,895	-	540,895
190	TOTAL ASSETS	\$ 1,812,592	\$ 43,130	\$ 1,855,722

See accompanying notes to financial statements

LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

December 31, 2006

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Housing Choice Vouchers</u>	<u>TOTAL</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 9,359	\$ 1,409	\$ 10,768
321	Accrued wages / payroll taxes payable	10,510	5,405	15,915
322	Accrued compensated absences - current portion	3,434	1,156	4,590
325	Accrued interest payable	1,208	-	1,208
341	Tenant security deposits	8,167	-	8,167
342	Deferred revenues	2,073	-	2,073
343	Current portion of long-term debt	125,000	-	125,000
347	Interprogram due from	-	1,693	1,693
310	TOTAL CURRENT LIABILITIES	159,751	9,663	169,414
351	Long-term debt, net of current maturities	120,000	-	120,000
354	Accrued compensated absences - non current	2,292	2,641	4,933
350	TOTAL NONCURRENT LIABILITIES	122,292	2,641	124,933
300	TOTAL LIABILITIES	282,043	12,304	294,347
<u>NET ASSETS</u>				
508.1	Investment in capital assets, net of related debt	295,895	-	295,895
512.1	Unrestricted net assets	1,234,654	30,826	1,265,480
513	TOTAL NET ASSETS	1,530,549	30,826	1,561,375
600	TOTAL LIABILITIES AND NET ASSETS	\$ 1,812,592	\$ 43,130	\$ 1,855,722

See accompanying notes to financial statements

LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2006

Line Item #	Account Description	Business Activities	Housing Choice Vouchers	TOTAL
<u>REVENUES</u>				
703	Net tenant rental revenue	\$ 115,510	\$ -	\$ 115,510
704	Tenant revenue - other	1,518	-	1,518
705	Total tenant revenue	117,028	-	117,028
706	HUD PHA grants	123,306	369,903	493,209
711	Investment income - unrestricted	14,746	1,392	16,138
715	Other revenue	1,229,071	-	1,229,071
716	Gain/loss on sale of fixed assets	(170)	-	(170)
700	TOTAL REVENUE	1,483,981	371,295	1,855,276
<u>EXPENSES</u>				
Administrative:				
911	Administrative salaries	42,348	36,236	78,584
912	Auditing fees	1,206	2,144	3,350
914	Compensated absences	614	84	698
915	Employee benefit contributions- administrative	22,070	7,770	29,840
916	Other operating- administrative	7,984	11,428	19,412
	Total Administrative	74,222	57,662	131,884
Tenant services:				
924	Tenant services - other	289	-	289
Utilities:				
931	Water	7,306	-	7,306
932	Electricity	17,832	-	17,832
933	Gas	14,523	-	14,523
	Total Utilities	39,661	-	39,661
Maintenance:				
941	Ordinary maintenance and operations - labor	14,863	-	14,863
942	Ordinary maintenance and operations - materials & other	5,894	-	5,894
943	Ordinary maintenance and operations - contract costs	10,186	-	10,186
945	Employee benefit contributions- ordinary maintenance	3,218	-	3,218
	Total Maintenance	34,161	-	34,161

See accompanying notes to financial statements

LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2006

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Housing Choice Vouchers</u>	<u>TOTAL</u>
General expenses:				
961	Insurance premiums	8,898	917	9,815
963	Payments in lieu of taxes	4,000	-	4,000
967	Interest expense	16,453	-	16,453
	Total General Expenses	<u>29,351</u>	<u>917</u>	<u>30,268</u>
969	TOTAL OPERATING EXPENSES	<u>177,684</u>	<u>58,579</u>	<u>236,263</u>
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>1,306,297</u>	<u>312,716</u>	<u>1,619,013</u>
971	Extraordinary maintenance	5,470	-	5,470
973	Housing assistance payments	-	322,853	322,853
974	Depreciation expense	59,177	-	59,177
900	TOTAL EXPENSES	<u>242,331</u>	<u>381,432</u>	<u>623,763</u>
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ 1,241,650</u>	<u>\$ (10,137)</u>	<u>\$ 1,231,513</u>
MEMO account information				
1103	Beginning equity	\$ 287,691	\$ 40,963	\$ 328,654
1104	Prior period adjustments, equity transfers	\$ 1,208	\$ -	\$ 1,208
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ -	\$ 369,903	\$ 369,903
1116	Total Annual Contributions Available	\$ -	\$ 369,903	\$ 369,903
1120	Unit months available	480	1,310	1,790
1121	Number of unit months leased	470	1,310	1,780
1117	Administrative fee equity	\$ -	\$ 27,996	\$ 27,996
1118	Housing assistance payments equity	\$ -	\$ 2,830	\$ 2,830

See accompanying notes to financial statements

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Board of Commissioners
Luce County Housing Commission
Newberry, Michigan

We have audited the financial statements of Luce County Housing Commission as of and for the year ended December 31, 2006, and have issued our report thereon dated September 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Luce County Housing Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Luce County Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Luce County Housing Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Luce County Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to Management of the Luce County Housing Commission in a separate letter dated September 6, 2007.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

September 6, 2007



ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

September 6, 2007

Board of Commissioners
Luce County Housing Commission
Newberry, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Luce County Housing Commission for the year ended December 31, 2006, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 6, 2007, on the financial statements of the Luce County Housing Commission.

1. During the review of cash and investments, it was noted that the Commission did not have depository agreements in place with all the banks it does business with. In addition, it was noted that the Commission's funds were not fully collateralized as required by HUD. At December 31, 2006, the Commission had funds in excess of insured amounts totaling \$11,191.

Recommendation

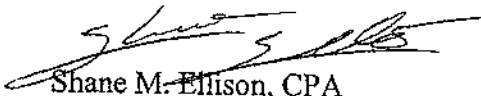
The Commission should have policies and procedures in place so as to require each bank it does business with to sign a depository agreement with the Commission. The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000. The Commission should require its banks to provide documentation of collateral at a minimum on a quarterly basis. It is imperative that the Commission monitor its cash and investments continuously to verify that the collateral provided by the banks are adequate throughout the year.

Luce County Housing Commission
September 6, 2007
Page 2

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC


Shane M. Ellison, CPA
Principal